

Oversight Division

Committee On Legislative Research

SUNSET REVIEW

Innovation Campus
Tax Credit Program

2019

Sunset Review

Innovation Campus Tax Credit Program 2019

*Prepared for the Committee on Legislative Research
by the Oversight Division*

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Committee on Legislative Research Oversight Subcommittee

THE COMMITTEE ON LEGISLATIVE RESEARCH, Oversight Division, is an agency of the Missouri General Assembly as established in Chapter 23 of the Revised Statutes of Missouri. The legislature appropriates approximately \$29.7 billion annually for programs and activities in the state. Each year the General Assembly enacts laws which add to, delete or change these programs. To meet the demands for more responsive and cost effective state government, legislators need to receive information regarding the status of the programs which they have created and the expenditure of funds which they have authorized. The work of the Oversight Division provides the General Assembly with a means to evaluate state agencies and state programs.

THE COMMITTEE ON LEGISLATIVE RESEARCH is a permanent joint committee of the Missouri General Assembly comprised of the chair of the Senate Appropriations Committee and nine other members of the Senate and the chair of the House Budget Committee and nine other members of the House of Representatives. Currently, there is one vacancy from the House of Representatives. No more than six members from the House and six members from the Senate may be of the same political party.

Sunset reviews are assigned to the Oversight Division pursuant to Sections 23.250 to 23.298, RSMo. After August 28, 2003, any new program authorized by the General Assembly shall sunset not more than six years after its effective date unless re-authorized by the General Assembly. The Oversight Division shall conduct a performance evaluation of the program as set forth in statute and prepare a written report. The report shall make recommendations on the sunset, continuation, or reorganization of a program.

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**COMMITTEE ON LEGISLATIVE RESEARCH
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Members of the General Assembly:

The Joint Committee on Legislative Research, Oversight Division is required by Section 23.259.1(3), RSMo to conduct a performance evaluation of the Innovation Campus Tax Credit program to determine and evaluate program performance in accordance with program objectives, responsibilities, and duties as set forth by statute or regulation.

The report may include Oversight comments on (1) the sunset, continuation, or reorganization of the program, and on the need for the performance of the functions of the program; (2) the duplication of program functions; (3) the appropriation levels for each program for which sunset or reorganization is recommended; and (4) drafts of legislation necessary to carry out the committee's recommendations pursuant to (1) and (2) above.

We hope this information is helpful and can be used in a constructive manner for the betterment of the state program to which it relates. You may obtain a copy of the report from the Oversight Division website at www.legislativeoversight.mo.gov.

Respectfully,

Chair

Purpose/Objectives

The Missouri Sunset Act requires the Joint Committee on Legislative Research, Oversight Division to conduct performance evaluations of various state programs. The committee shall consider the criteria as listed in Section 23.268, RSMo in determining whether a public need exists for the continuation of a program, or for the performance of the functions of the program. A sunset review is the regular assessment of the continuing need for a state program to exist. A sunset review answers the basic questions of what has happened to this program since its inception and does the State of Missouri continue to “need” the services provided by the program.

The Joint Committee on Legislative Research directed the Oversight Division to conduct a Sunset Review of the Innovation Campus Tax Credit program (program), Section 620.2600, RSMo. This report provides the status on the tax credit program as created by House Bill 1459 (merged with Senate Bill 729) (2014) and fulfills the requirements as established by Section 23.268, RSMo.

The Oversight Division review addressed, but was not limited to the following:

1. Compiling and reviewing data related to the program since its inception.
2. Analyzing related events and changes to the program since its inception.

Scope

The Oversight Division obtained and reviewed information from the Department of Economic Development on the Innovation Campus Tax Credit program from 2014 through June 2019.

Methodology

The Oversight Division obtained information on the program through correspondence with the Department of Economic Development and the Department of Higher Education as well as a review of the statutes related to the program.

Legislative History

House Bill 1459 (merged with Senate Bill 729) from the 2014 legislation session created the Innovation Campus Tax Credit program to provide assistance to educational partnerships to advance learning in the areas of science, technology, engineering, and mathematics, while reducing the time and cost required for Missouri students to obtain a college degree in those fields of study. Individuals and corporations are allowed a credit of fifty percent of an eligible donation to an innovation campus against taxes otherwise due the state.

When heard in the Committee on Economic Development, proponents of the bill stated the tax credit would increase private contributions and create a new revenue stream for innovation campuses. Innovation campuses were stated to be key components in promoting technology and economic growth. Supporters said these programs would get young students involved in the fields of science, technology, engineering, and mathematics as well as help create individuals who will be ready to develop their own companies.

House Bill 1459 received 134 votes in the House (19 votes against the bill) and 32 votes (zero votes against) in the Senate. The bill included sunset language that requires the program to sunset on August 28, 2020, unless re-authorized by the General Assembly. No additional changes have been made to this program or to the sunset language since its creation in 2014.

Program History

House Bill 1459 (sponsored by former Representative Jeanie Lauer of the 32nd district) allowed for all taxable years beginning on or after January 1, 2015, any taxpayer to claim a credit against taxes otherwise due, in an amount equal to fifty percent of the amount of an eligible donation to an innovation campus. In order to claim the credit, an innovation campus had to submit to the Department of Economic Development (DED) an application for the tax credit. Along with the application, an innovation campus had to include a statement attesting to the eligible donation received which had to include the name and taxpayer identification number, the amount of the donation and the date the eligible donation was received by the innovation campus. Also, payment from the innovation campus equal to the value of the tax credit for which the application was made was required. The tax credit could be assigned, transferred, sold, or otherwise conveyed with a notarized endorsement filed with DED.

The approved innovation campus partnership retains fifty percent of the eligible contribution and forwards fifty percent to the state with the application for “payment” of the tax credit.

Eligible innovation campus partnership applicants consist of at least one of each of the following:

- a local Missouri high school or K-12 school district;
- a Missouri four-year public or private higher education institution;
- a Missouri-based business or businesses; and
- a Missouri two-year public higher education institution or state technical college of Missouri.

Each innovation campus partnership applicant must provide proof of the partnership through a multi-party Memorandum of Understanding (MOU) or other binding agreement. Innovation campuses are not required to register with DED; however, they are required to apply if interested in receiving tax credits for their donors. So far, no innovation campus partnerships have registered with DED under this program; however the Missouri Innovation Campus (MIC) between the University of Central Missouri and the R-7 Lee's Summit School District is described as an existing, qualifying entity in Section 178.1100, RSMo for the Innovation Education Campus funding program (described on page 4).

When asked if the program was marketed, DED stated they posted the program summary and application on its website. In addition, when DED presented global presentations of resources, the Innovation Campus tax credit program was included. DED has also included information regarding the program in offerings at exhibit booths (such as at the Newly Elected Officials Conference hosted by the Missouri Municipal League).

According to DED, there were no tax credits authorized or issued under this program during the last five calendar years (since inception).

DED's key functions regarding the program would be to screen applicants for eligibility and to issue tax credits for eligible donations. DED estimated a maximum of four hours per project would be needed to approve the entity and issue the tax credits; however, there were no applications submitted so this figure is an estimate.

Oversight inquired of DED why they thought the tax credit program had not been utilized. DED stated that based on limited feedback they had received, organizations believed that the requirement to give the state fifty percent of the donation to cover the tax credit made the application process and subsequent fund-raising unfeasible. However; DED had no recommendations in regards to increasing participation and/or improving the program.

Oversight notes that there were other state programs (some funded and some not) that may have impacted entities with similar structures as innovation centers or at least had a similar sounding program name, including;

- 1) Community Development Block Grant (CDBG) through DED - Eight groups of entities (i.e. Springfield Business Corporation–Ozark Technical College and Missouri State University) received funding under a 2008 Community Development Block Grant - Disaster Recovery Grant with the purpose of connecting businesses to a workforce with a specific skill set obtained by design. Course work eligible for CDBG assistance were restricted to degree program only and no general education classes were eligible. Innovation Campus partners included local economic development agencies, public four year universities (community colleges and high schools), businesses in identified high growth industries in need of a skilled workforce. This funding occurred in 2008 only.
- 2) Innovation Centers funding though the Missouri Technology Corporation - section 348.271, RSMo. established a program to help fund innovation centers (i.e. Missouri Enterprise - MEP Innovation Center in Rolla) in order to foster the growth of Missouri's economy and to stimulate the creation of new jobs in science and innovation-based industry for the state's work force. This statute authorized the Missouri Technology Corporation (MTC) to contract with Missouri not-for-profit corporations for the operation of innovation centers within the state. Approximately \$2 million per year is divided between nine Innovation Centers. Innovation Centers are not the same as Innovation Campuses.
- 3) Innovation Education Campus Fund through the Department of Higher Education. Section 178.1100, RSMo. (Senate Bill 381 in 2013) authorizes the General Assembly to appropriate moneys to be used for the program of instruction at any innovation education campus. Oversight inquired of the Department of Higher Education (DHE) in regards to the Innovation Education Campus Fund that was created in this statute, and DHE was unable to confirm if the program was ever implemented. Oversight reviewed SAM II expenditure reports and reports from the State Treasurer's Office and was unable to find activity in this fund since its creation.

However as stated previously, the Innovation Campus Tax Credit program has never been utilized.

Summary

Possible options available to the Missouri General Assembly include letting the program expire or extending the sunset:

1. The General Assembly could allow the program to sunset on August 28, 2020, and terminate on September 1, 2021, by taking no further action. This would remove the tax credit available to those individuals or corporations that wish to donate to innovation campuses. This would not save state tax revenue as this credit is established as a prepaid tax credit.
2. The General Assembly could extend the sunset up to an additional twelve years (approximately until August 2031) by passing legislation. This would continue to provide the tax credit option to any eligible donor to innovation campuses. This would not cost the state tax revenue as the credit is established as a prepaid tax credit.
3. The General Assembly could remove the sunset requirement. This would also require passing legislation and would continue to provide the tax credit option to any eligible donor to innovation campuses. The General Assembly could also modify the tax credit program to allow for a greater percentage of the eligible donation to go towards the innovation campus. This may increase donations to innovation campuses; however it could also require funding from the state depending upon the changes made.

Oversight notes the Innovation Campus tax credit program requires few resources to administer. However, the tax credit program has not been utilized since its inception; therefore, changes may be necessary to increase participation in the program. If changes are not made to the program to attract innovation campuses and donors, Oversight recommends allowing the program to sunset.